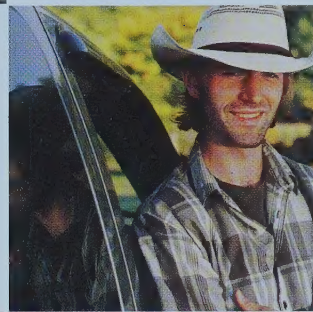
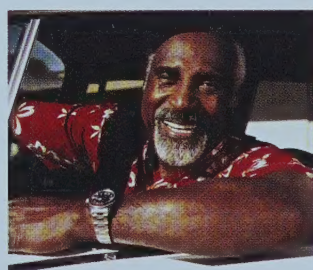
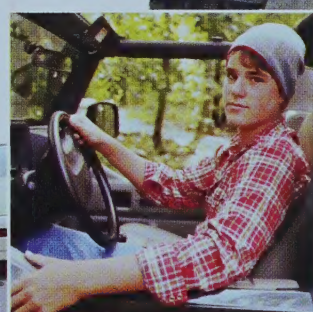


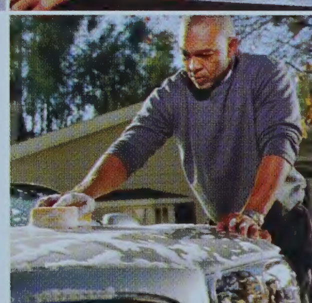
CARFINCO™

ANNUAL REPORT 2005

CANADA'S LEADING SPECIALTY FINANCE INCOME FUND

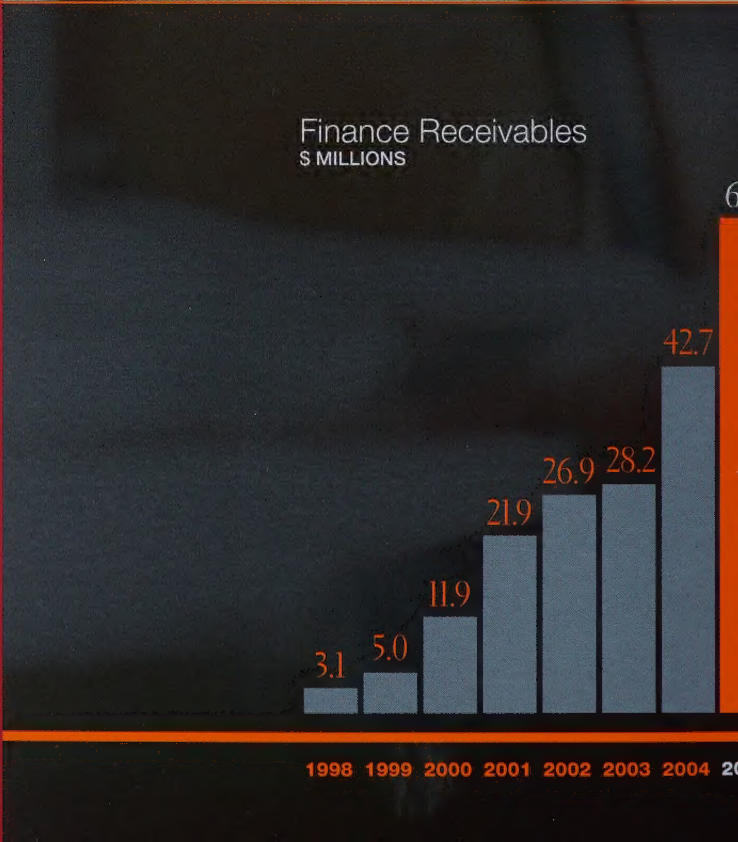






Canada's Leading Specialty Finance Income Fund

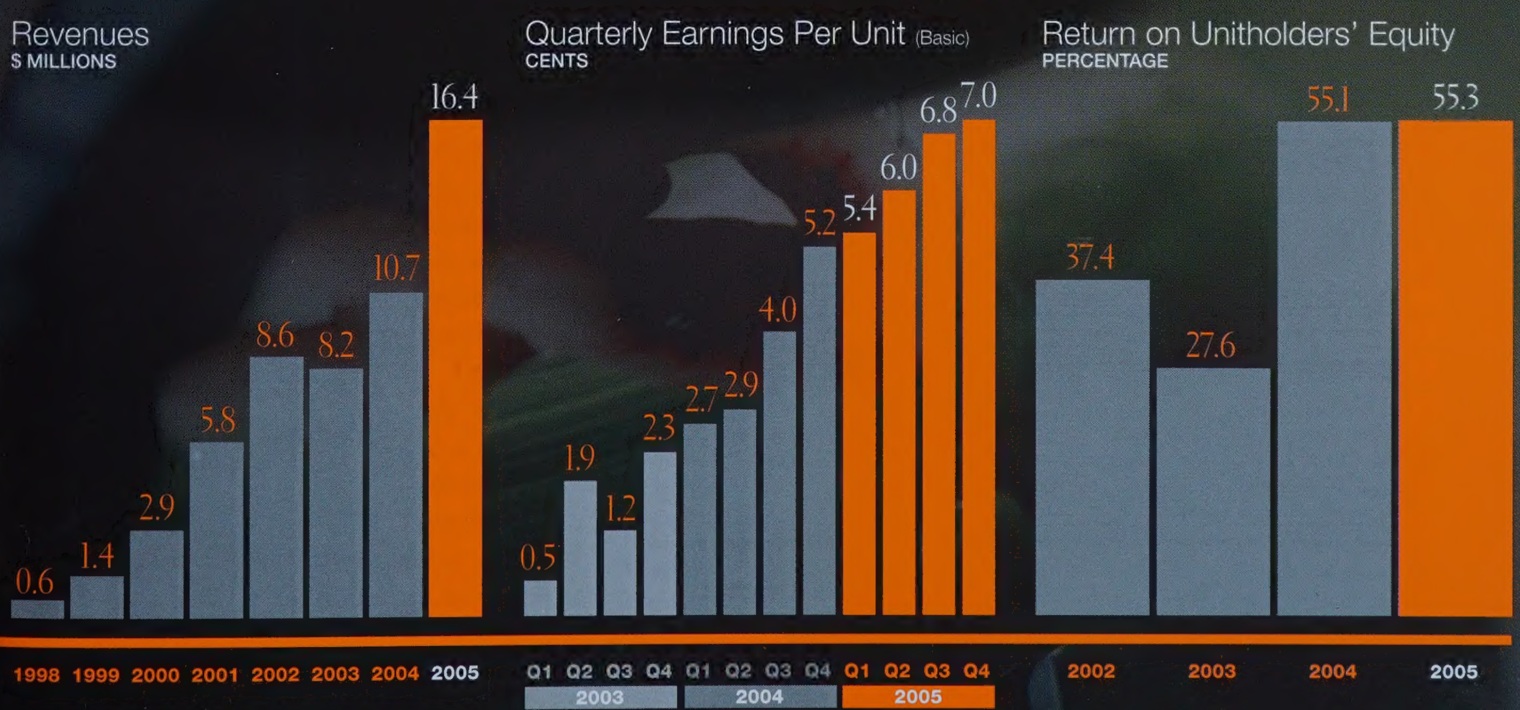
A growth-oriented income trust, Carfinco focuses on providing consumer car loans to borrowers unable to obtain financing through traditional lending sources. A network of select independent and franchise dealerships offer Carfinco's payment plan to their customers who must, along with the vehicle, meet Carfinco's stringent credit criteria.

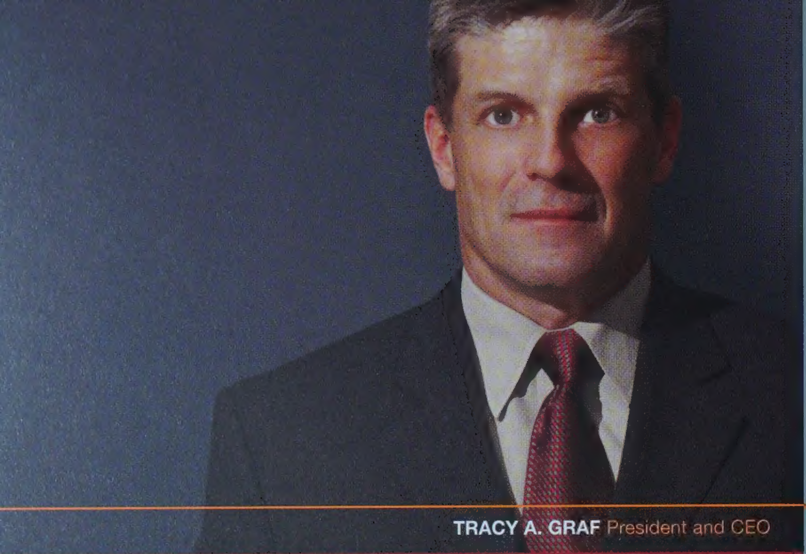


In 2005, Carfinco continued to demonstrate why we are Canada's leading specialty finance income fund. While this annual report provides a thorough look into how our business expanded in terms of loan originations, finance receivables, net earnings and unit value, our excellent performance can be summarized in three words:

growth, momentum and results.

FINANCIAL HIGHLIGHTS





TRACY A. GRAF President and CEO

"Management faithfully executed a strategy that has proven effective: identifying and servicing the growing market for loans to people who need a vehicle but are unable to obtain financing from more traditional sources."

EXCEPTIONAL GROWTH IN:

1. Loan originations
2. Finance receivables
3. Net earnings
4. Distributions

Carfinco exceeded our 2004 record performance and posted record gains in virtually every financial category.

To Our Unitholders

Carfinco Income Fund achieved outstanding results in 2005. We exceeded our record 2004 performance and posted impressive gains in every area: more loan originations, higher finance receivables, stronger net earnings and enhanced unit value. This success was the product of management's faithful execution of a strategy that has proven effective: identifying and servicing the growing market for loans to people who need a vehicle but are unable to obtain financing from more traditional sources.

We focus on a previously under-serviced segment of the vehicle finance market by enabling consumers with a low or no credit score to purchase a vehicle. Often, Carfinco is the only lender available to our customers. After assessing the borrower's ability to afford the monthly payments and ensuring that the vehicle meets our criteria, we provide a loan with interest rate terms that are commensurate with the credit risk. Over the years, we have proven that this risk can be successfully priced and managed, with very profitable results.

Our 2005 numbers confirm Carfinco's very strong year. Finance receivables of $61.1 million in 2005 represent an increase of 43.3% over the finance receivables of $42.7 million recorded in 2004. Revenues increased 52.9% to $16.4 million in 2005 from the $10.7 million stated for 2004. And, while our revenues increased by 52.9%, expenses rose by only 41.1%.

In correlation to the above, Carfinco's net earnings increased significantly to $4.5 million for 2005, a 96.4% increase from $2.3 million earned in 2004. Earnings per unit rose 66.7% to $0.25 per unit in 2005 from $0.15 cents per unit in 2004.

We should also note that Carfinco continues to maintain an impressive return on unitholders' equity, at 55.3% for 2005, an increase from 55.1% for 2004.

Successful Business Model

Our structure as an income fund is well suited to our business model. Because we are an indirect lender and purchase loans originated by select independent and franchise car dealers, rather than have storefront locations in each region we do business in, we maintain lower capital expenses. Expansion costs occur in the areas of employee recruitment and information technology upgrades, neither of which are depleting assets nor particularly capital intensive.

Distributions to unitholders can therefore remain at a relatively high percentage while not compromising the Fund's growth potential. The gains we continue to post year-over-year, and the increasing distributions that accompany those gains, underscore and confirm this fact. In April 2005, in conjunction with approval from our senior lender, the Fund increased Unitholder cash distributions from 40% of taxable income on a quarterly basis to approximately 100% of taxable income on a monthly basis. Since the conversion to monthly distributions in April 2005, the Fund has also increased the distributions twice.

Carfinco is, above all, a responsible lender that ensures its customers meet minimum income, residency, employment and down payment requirements. Customers with undischarged bankruptcies must have their trustee confirm their obligations are being met before Carfinco will lend to them. In addition, customers must not have any current major debt past due in order to qualify for financing.

Our diligence in selecting the right people to lend to, as well our singular focus on vehicle financing, has created a dependable revenue stream for the Fund. As our track record clearly shows, a portfolio of diversified borrowers, who have less-than-perfect credit scores, can create stable cash flow. We are disciplined, experienced and nimble enough to service customers that larger, less-specialized lenders may not have the ability to service efficiently, which places us as leaders in our niche.

New Dealership Pipeline and Geographic Reach

Building and maintaining solid connections with our dealers is central to our continued success as we have preferred to build a select network of quality auto dealerships, both franchise and independent. The relationship between Carfinco and dealers is symbiotic: we help them move inventory off the lot, while they introduce us to new customers.

NET EARNINGS UP
96.4%
OVER 2004

NEW DEALERS ADDED IN 2005:

292

TOTAL NUMBER OF DEALERSHIPS AT YEAR END:

806

There is significant room for growth and strong potential to build relationships with many more dealers.

Carfinco's growth prospects for 2006 have been significantly enhanced since securing a new pipeline into even more dealerships. The Fund has reached an agreement to partner with Curomax, a Canadian pioneer in Internet-based automotive financing that links dealers to financial institutions. The new arrangement has the potential to deliver many more loan originations to Carfinco, with Curomax acting as a medium to facilitate such transactions.

Management will continue to mine Carfinco's existing geographic presence for new business, while exploring a possible return to Saskatchewan in 2006.

The Year Ahead

Carfinco remains dedicated to extending financing for a newer vehicle to hardworking Canadians who may have been unable to secure a loan elsewhere. Management will continue to stick with what works in 2006. With our committed investment in marketing, IT and additional personnel, we expect to see continued geographical and dealer network growth in Manitoba, Ontario and the Maritimes, continued success in Alberta and British Columbia and new avenues for growth in Saskatchewan, all of which will serve our business model in increased loan originations and increased finance receivables. Our proprietary system, Car-Q, which extends across our entire geographic reach, and Curomax, will positively impact our goal of increasing loan originations with increased online exposure and ease-of-use for our network of dealerships.

Our numbers, while very strong, cannot tell our whole story. Carfinco's real success comes from our people, the hardworking staff whose professionalism and dedication to excellence have propelled us to outperform. We are also grateful for the guidance of our Board of Trustees, whose experience has helped Carfinco navigate the evolution of the Fund, particularly with respect to our graduation to the TSX in 2005.

Finally, we must recognize our unitholders. They have placed their trust in Carfinco and we, in turn, are committed to creating value for them, always with an eye to building stable and growing monthly distributions.

TRACY GRAF
Chief Executive Officer

“We believe we have the systems and management philosophy in place to preserve and create unitholder value.”

MANAGEMENT REVIEW

Carfinco is growing at an extraordinary rate, by all measures. Our revenues and net earnings have shown double-digit percentage growth year after year, while the number of loans in our portfolio is now in the several-thousand range and expanding weekly. In fact, *Alberta Venture* selected us as one of the province's 50 fastest growing companies on the magazine's “2006 Fast 50” list. Momentum is clearly on our side: the challenge for Carfinco is to skillfully manage this rapid expansion to ensure our success is sustainable over the long term.

We believe we have the systems and management philosophy in place to preserve and create unitholder value. We have significant expertise in the non-prime vehicle loans market and believe there is still significant potential to grow by continuing to focus on this lending niche. We have not been distracted by trying to enter ancillary credit markets, and our belief in the viability of our sector has been validated by the recently announced acquisitions of two non-prime lenders by major Canadian chartered banks.

Carfinco's growth pattern is evident in the numbers. Finance receivables for 2005 were $61.1 million, revenue was $16.4 million and net earnings reached $4.5 million. This expansion has occurred organically and as we continue to grow in stature and geographic reach, so too does our momentum.

Senior debt and subordinated debt have been the two major funding sources for our growth. We also have the option of turning to the capital markets when necessary, as we did in 2005, raising $7.2 million in a private placement and significantly augmenting our equity base without earnings dilution to our existing unitholders.

In 2005, Carfinco continued to create value for unitholders. We converted from a quarterly to a monthly cash distribution. Our payout ratio limit was increased from 40% to 100% of taxable income and monthly distributions were raised twice, reflecting growth in our loan portfolio.

Unitholders also benefitted from a one-time year-end trust unit distribution in December 2005 of 0.0119 (119/10,000) units per unit held, for a value of $0.036 per unit. This distribution was in addition to a one-time cash distribution of $0.008 per unit and the regular monthly cash distribution of $0.024, bringing Carfinco's total distributions to $0.285 per unit for 2005, compared with $0.191 in 2004.

In addition, Carfinco graduated to the TSX in June 2005. Our Fund now has an elevated profile, access to capital, liquidity and the status that comes with being listed on Canada's largest exchange.

In the year ahead, management and the Board of Trustees will continue to guide Carfinco on a path to value creation through program diversity, geographic expansion and cash distribution to the unitholders who have entrusted us with their investment.

CORPORATE **GOVERNANACE**

Carfinco's Board of Trustees is dedicated to the highest standards of corporate governance. The Board believes that Carfinco is ideally situated to realize vast opportunities in the non-prime vehicle lending market. The Fund is focused on a lucrative market and has a management team dedicated to serving the interests of clients, employees, the industry and investors. We are confident that Carfinco's prospects for continued success are strong.

The Board of Trustees is mandated to provide stewardship and oversight of the Fund on behalf of its unitholders. We carry out this role through regular meetings with Carfinco's management, as well as by contacting the Fund's officers throughout the year. Through this structured approach, Trustees exercise their duty to support informed, prudent and resolute decision-making for the ultimate benefit of unitholders. Above all, our actions are guided by recommended corporate governance regulations for public companies to ensure high standards of accountability and transparency to unitholders.

A Win-Win Relationship

We've developed a great working relationship with the folks at Carfinco. They understand our business and focus on what's important to us. Their service-oriented approach meets our needs – and the needs of our customers. It's definitely a win-win relationship.

***HOWARD ACKMAN,** Roadsport Auto Credit/Calgary Alberta*

We Help Move Cars

In the past, we couldn't service the segment of car buyers who didn't fit the profile for conventional lending. Carfinco's flexible credit requirements have helped us to expand our customer base and, ultimately, move more cars off the lot.

***NEIL PURI,** Toronto Auto Group/Toronto Ontario*

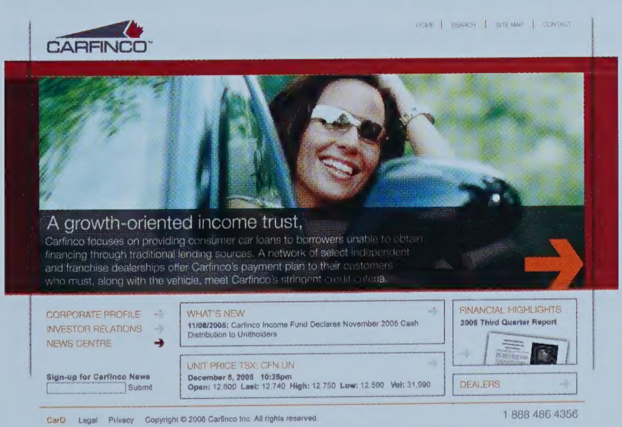
2005 Achievements

- Grew finance receivables to $61.1 million
- Revenues of $16.4 million
- Net earnings of $4.5 million
- Total distributions of $0.285 per unit
- Raised $7.2 million in private placement
- Named one of Alberta's 50 fastest growing companies
- Listed on *Profit 100* magazine's list of Canada's top 200 fastest growing companies
- Graduated to the TSX

2006 Outlook

- Sustain momentum
- Continue to invest in marketing and IT
- Add key personnel
- Move into ninth Canadian province
- Increase online exposure
- Grow number of dealerships
- Ensure solid monthly distributions
- Continue to create unitholder value

Launch of New Website



In 2006, Carfinco will unveil a dynamic new website with a great deal of new content, archived information and interactive tools, to better serve the needs of customers, car dealers and unitholders. Look for the new site to launch in the second quarter.

MANAGEMENT'S
DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of Carfinco Income Fund (the "Fund") should be read in conjunction with, and is qualified by, the Fund's audited consolidated financial statements for the years ended December 31, 2005 and 2004 and the accompanying notes to those consolidated financial statements contained in this annual report.

This analysis has been prepared taking into consideration information available to March 21, 2006.

This report contains certain forward-looking statements that involve a number of known and unknown risks, uncertainties and other factors that may cause actual results of events to differ materially from those anticipated in our forward-looking statements.

Overview

Carfinco Income Fund is an unincorporated open-end mutual fund trust established under the laws of Ontario by a Deed of Trust made as of August 26, 2002, as amended and restated on April 23, 2004. The Fund owns 100% of Carfinco Holdings Trust, a wholly owned unincorporated trust, established under the laws of Ontario and 100% of Carfinco Inc., a wholly owned subsidiary, established under the laws of Ontario. Carfinco Holdings Trust holds an 89.36% interest in Carfinco Limited Partnership, and Carfinco Inc. ("Carfinco") holds the remaining 10.64% interest, and is the general partner of Carfinco Limited Partnership. The Fund trades its trust units on the Toronto Stock Exchange under the symbol "CFN.UN."

The Fund, through Carfinco Limited Partnership, purchases loans, originated by select independent and franchise vehicle dealers to consumers buying late-model used automobiles. Since commencing the purchase of contracts in March 1997, the Fund (and formerly, Carfinco) has acquired more than $16.9 million in repair finance contracts and $154.5 million in vehicle purchase contracts. The Fund targets borrowers who are typically unable to obtain financing from traditional sources.

To fund the acquisition of receivables, the Fund uses its borrowings under its credit facility, as well as borrowings through subordinated debenture issuances. The Fund generates interest and fee income on its finance receivables and pays interest expense on borrowings under its credit facility and on outstanding subordinated debentures.

Outlook

The Fund's strategy is to produce growth in the finance receivable portfolio through geographic and dealer network expansion. This growth will be attained in a prudent manner without compromising underwriting credit standards. Management has taken steps to increase funding volume in 2006 by hiring dealer representatives in new geographic markets. During 2005, the Fund established 292 new dealer relationships compared to 214 during 2004, an increase of 36.4%. The total number of dealer relationships increased from 514 at the end of 2004 to 806 at the end of 2005, an increase of 56.8%. The Fund has relationships with a limited number of dealers and feels there is significant room for growth.

From an operations perspective, the Fund continues to expand the Edmonton head office to accommodate the additional staff members necessary to manage the growing finance receivable portfolio. The hiring and retention of the best administrative and collections staff has always been a focus of the Fund. The current labour market in Alberta has a limited number of available qualified applicants; however, the Fund has overcome these challenges through improved hiring practices and employee benefit packages.

The Fund continues to invest in information technology and recognizes it as the leading provider of operational efficiency. An Internet-based platform is used to receive credit applications from dealers, to underwrite the customer and to communicate funding stipulations to the dealer. This Internet-based system communicates directly with the Fund's credit bureau providers and integrates with the internal finance system. The internal finance system is specialized to the automotive finance industry and handles the following functions: general ledger, financial reporting, account reporting, accounts payable, automated payment processing, automated deposit processing, account collection administration and repossession processing. The internal finance system is scaleable and will handle the planned growth in the Fund's finance receivable portfolio.

Results of Operations

The total revenue for 2005 was $16.41 million, an increase of $5.68 million over the 2004 total revenue of $10.73 million. The net earnings for 2005 were $4.49 million, an increase of $2.20 million over the 2004 net earnings of $2.29 million. Earnings per fund unit increased from $0.15 in 2004 to $0.25 in 2005. Overall, total revenue increased 52.9%, net earnings increased 96.4% and earnings per fund unit increased 66.7% from 2004 to 2005.

The Fund distributed 100.0% of its 2005 taxable income of $5.23 million. Of this amount, 87.3% was distributed in cash and the remaining 12.7% was distributed through the issuance of additional trust units. The Fund distributed 100.0% of its 2004 taxable income of $2.83 million. Of this amount, 39.8% was distributed in cash and the remaining 60.2% was distributed with the issuance of additional trust units. In 2005, the Fund distributed 101.8% of its net earnings in cash; in 2004 it distributed 49.3% of net earnings in cash.

The Fund commenced monthly cash distributions in April 2005 at the rate of $0.021 ($0.252 annually) per trust unit held. Prior to this, the Fund issued cash distributions on a quarterly basis. The monthly cash distribution rate increased twice during 2005, to $0.022 ($0.264 annually) in July 2005 and to $0.024 ($0.288 annually) in October 2005. The Fund intends to continue adjusting the cash distribution rate to efficiently distribute the Fund's net earnings and to distribute the Fund's remaining taxable income through the issuance of additional trust units and/or cash at year end.

Revenues

The Fund's revenues for 2005 were $16,406,382 compared to $10,733,640 for 2004, an increase of $5,672,742, or 52.9%.

INTEREST

Interest income increased $4,708,541, or 49.2%, from $9,578,897 for fiscal 2004 to $14,287,438 for fiscal 2005. The increase in interest income is directly related to the growth in the finance receivable portfolio.

ADMINISTRATION FEES

Administration fee income increased $964,201, or 83.5%, from $1,154,743 for fiscal 2004 to $2,118,944 for fiscal 2005. During 2004, the Fund commenced deferring administration fees charged to the customer, in excess of the costs incurred, on the origination of finance receivables. The deferred fee components are then recorded to revenue and expense on an effective yield basis over the expected life of the contracts originated. The revenues derived from this source during 2004 became material to the Fund's operations and the Fund commenced applying its revenue recognition policy for this type of revenue on a prospective basis.

Revenues are anticipated to move in conjunction with the growth in the finance receivable portfolio. The larger portfolio generates additional interest income and origination and collection activity generates additional administration fee income.

Expenses

The Fund's expenses for 2005 were $11,917,569 compared to $8,448,282 for 2004, an increase of $3,469,287, or 41.1%.

INTEREST

The interest expense increased $359,617, or 20.5%, from $1,750,964 for fiscal 2004 to $2,110,581 for fiscal 2005. The overall increase in interest expense is composed of two offsetting components. First, the interest expense on the bank credit facility increased by 60.6% due to: an increase in the average outstanding credit facility balance from 2004 to 2005 of 56.6%; an increase in the average prime rate from 2004 to 2005 of 10.4%; and, a reduction in the credit facility interest rate by 50 basis points, effective June 30, 2005. Secondly, the interest expense on the subordinated debentures decreased by 58.8% due to the average outstanding balance of subordinated debentures decreasing from 2004 to 2005. The decrease in the average debenture balance is due to the Fund redeeming all debentures on April 8, 2005.

FINANCING FEES

The financing fees increased $13,283, or 35.3%, from $37,595 for fiscal 2004 to $50,878 for fiscal 2005. The increase is due to the legal fees related to credit facility amendments.

PROVISION FOR CREDIT LOSSES

The provision for credit losses increased $1,821,623, or 53.0%, from $3,437,482 for fiscal 2004 to $5,259,105 for fiscal 2005. The increase in provision for credit losses is due to the growth in the finance receivable portfolio. The $5,259,105 (2004 – $3,437,482) provision is composed of $4,527,655 (2004 – $3,318,482) in net write-offs and a $731,450 (2004 – $119,000) increase in the allowance for credit losses.

AMORTIZATION

Amortization expense increased $627, or 0.8%, from $79,136 for fiscal 2004 to $79,763 for fiscal 2005. Purchases of capital assets were $143,136 during fiscal 2005 compared to $97,056 for fiscal 2004. Management does not expect the upward trend in capital asset purchases to continue.

GENERAL AND ADMINISTRATIVE

General and administrative expenses increased $1,274,137, or 40.5%, from $3,143,105 for fiscal 2004 to $4,417,242 for fiscal 2005. The increase in general and administrative expenses is due to the overall expansion of the operational structure to accommodate the growth in the finance receivable portfolio. Specifically, salaries and benefits costs have increased as a result of higher staffing levels and loan administration costs have increased due to higher funding volumes.

Income Taxes

The Fund is a "unit trust" for income tax purposes. As such, the Fund is taxed on any taxable income not allocated to unitholders. Pursuant to the Deed of Trust, all or virtually all of the taxable income is allocated to unitholders; consequently, there is no tax liability for the Fund. No future taxes were recorded by the Fund in 2005, as there is no Canadian tax obligation.

The Fund follows the liability method of accounting for income taxes for its incorporated subsidiary, Carfinco Inc. Under this method, the Fund recognizes both the current and future income tax consequences of all transactions that have been recognized in the financial statements. Future income tax assets and liabilities are determined based on the tax rates that are expected to apply when the assets or liabilities are reported for tax purposes.

Asset Review

Total assets increased by $16,977,674, or 42.8%, to $56,638,645 at December 31, 2005 from $39,660,971 at December 31, 2004. Non-portfolio assets decreased $123,360, or 17.4%, from $707,571 at December 31, 2004 to $584,211 at December 31, 2005. At December 31, 2005, non-portfolio assets represented 1.0% (December 31, 2004 – 1.8%) of the total assets. The portfolio assets include the finance receivables, allowance for credit losses and the dealer reserve.

FINANCE RECEIVABLES

The finance receivables grew during fiscal 2005 by $18,479,897, or 43.3%, to $61,134,129. Funds advanced on finance receivables amounted to $39,533,058 for fiscal 2005 compared to $30,143,377 for fiscal 2004, an increase of $9,389,681, or 31.2%. The increase in funding levels can be attributed to the emphasis on geographic and dealer network expansion. The Fund continues to adhere to consistent underwriting standards to achieve portfolio growth.

All finance receivables are secured, under the applicable provincial personal property registry, by motor vehicle collateral. The increase in the size of the finance receivable portfolio is due to the Fund's expansion in the non-prime sector of the auto finance industry. The Fund's strategy continues to be that of the alternative lender to major financial institutions in the higher-risk used vehicle finance market.

ALLOWANCE FOR CREDIT LOSSES AND DEALER RESERVE

The Fund's allowance for credit losses, including dealer reserve, increased $1,378,863, or 37.3%, to $5,079,695 at December 31, 2005 from $3,700,832 at December 31, 2004. Allowance for credit losses, including dealer reserve, as a percentage of finance receivables was 8.3% at December 31, 2005 compared to 8.7% at December 31, 2004. The Fund will continue to monitor its credit loss experience and make additional provisions, as it deems appropriate.

The Fund establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The allowance for credit losses consists of accumulated specific and general components, which are deducted from the finance receivable portfolio. In addition to the allowance for credit losses, a dealer reserve has been established using dealer discounts to absorb potential credit losses. The provision for credit losses is adjusted to the extent actual credit losses exceed, or are less than the Fund's total loss reserves. The Fund believes that the allowance for credit losses is currently adequate to absorb losses existing in the finance receivable portfolio.

The Fund's finance receivable portfolio is composed of a large number of homogenous consumer loans, with relatively small balances, originated in the same industry, and as such, the evaluation of the allowance for credit losses is performed collectively for the group. The estimated allowance for credit loss requirements is determined by assessing the individual finance receivables in arrears, the perceived effect of current economic conditions or other circumstances on the remaining finance receivables, the historical industry ratios of write-offs, and the Fund's current write-off and recovery experience.

Delinquency and Losses

Credit losses, delinquency and provision as at and for each of the respective periods were as follows:

[illegible] except percentages)	2005	2004
Finance receivables outstanding at year end	$ 61,134	$ 42,654
Average finance receivables for the year	$ 51,894	$ 35,419
Nonperforming finance receivables at year end (1)	$ 269	$ 128
Nonperforming percentage at year end	0.4%	0.3%
Delinquent finance receivables at year end (2)	$ 1,574	$ 847
Delinquent percentage at year end	2.6%	2.0%
Allowance and reserve as a percentage of the finance receivables	8.3%	8.7%
Continuity of allowance for credit losses:		
Allowance, beginning of year	$ 2,729	$ 2,610
Provision for credit losses	5,259	3,437
Write-offs	(5,948)	(4,161)
Recoveries	1,420	843
Allowance, end of year	$ 3,460	$ 2,729
Continuity of dealer reserve:		
Reserve, beginning of year	$ 972	$ 220
Reserve on new volume	2,839	1,158
Write-offs	(2,443)	(434)
Recoveries	251	28
Reserve, end of year	$ 1,619	$ 972

Nonperforming finance receivables are greater than 90 days contractually past due on their scheduled payments.
(2) Delinquent finance receivables are greater than 60 days contractually past due on their scheduled payments.

The Fund originates transactions in a relatively high-risk segment of the consumer finance industry; therefore, write-offs are anticipated. The management of the Fund establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The Fund reviews static pool origination, historical industry ratios of write-offs, current write-offs and recovery experience, estimates of the underlying collateral value, and economic conditions and trends to make the necessary judgments as to the appropriateness of the allowance for loan losses. Although the Fund uses many resources to assess the adequacy of loss reserves, there is no precise method for estimating the losses existing in the finance receivable portfolio.

Liability Review

Total liabilities increased by $10,258,738, or 29.4%, to $45,164,123 at December 31, 2005 from $34,905,385 at December 31, 2004.

DEFERRED ADMINISTRATION FEES

The deferred administration fee balance increased by $1,266,956, or 105.6% from $1,199,504 at December 31, 2004 to $2,466,460 at December 31, 2005. The increase in 2005 is due to the growth in the finance receivable portfolio of 43.3% and to the increased use of finance programs charging a higher fee to the dealer.

The deferred administration fee balance includes the deferral of fees charged to the customer, in excess of costs incurred, and fees charged to the dealer. These deferred fee components are recognized as revenue and expense on an effective yield basis over the expected life of the contracts originated. During 2004, the Fund commenced deferring administration fees charged to the customer, in excess of the costs incurred, on the origination of finance receivables. The revenues derived from this source during 2004 became material to the Fund's operations and the Fund commenced applying its revenue recognition policy for this type of revenue on a prospective basis.

DEFERRED DEALER OBLIGATION

The deferred dealer obligation balance increased by $846,415, or 57.3%, from $1,477,985 at December 31, 2004 to $2,324,400 at December 31, 2005. The increase is due to the growth in the finance program that uses the purchase of finance receivables at a discount.

The Fund purchases certain finance receivables at a discount. The dealer has a vested interest in the performance of these finance receivables and can receive additional purchase consideration based on the collections from these finance receivables. The deferred dealer obligation represents the discount owed to the dealers, adjusted for estimated losses. The interest revenue is adjusted to the extent that the actual obligation exceeds or is less than this deferred dealer obligation.

Liquidity and Capital Resources

The Fund's primary sources of cash have been: cash flows from operating activities; borrowings under its credit facility; and the issuance of debt and equity. The Fund's primary uses of cash have been the funding of advances on finance receivables and the purchase of certain capital assets. Management believes that the resources available to the Fund provide the needed capital to fund the anticipated expansion of the finance receivable portfolio and investments in operating infrastructure for fiscal 2006.

The Fund's capitalization at each year end, and averages for the years are as follows:

($000s for stated values)	2005 BALANCE AT YEAR END	2005 AVERAGES FOR THE YEAR	2004 BALANCE AT YEAR END	2004 AVERAGES FOR THE YEAR
Bank credit facility	$ 39,060	$ 33,360	$ 27,661	$ 22,529
Accounts payable and accrued liabilities	737	624	511	403
Deferred dealer obligation	2,324	1,901	1,478	856
Total debt	$ 42,121	$ 35,885	$ 29,650	$ 23,788
Unitholders' equity	$ 11,475	$ 8,115	$ 4,756	$ 4,150
Deferred gain	77	103	130	157
Deferred costs	(62)	(50)	(37)	(34)
Long term debt	500	2,213	3,925	3,925
Total capitalization	$ 11,990	$ 10,381	$ 8,774	$ 8,198
Financial leverage	3.51:1	3.46:1	3.38:1	2.90:1

The Fund manages its capital resources by maximizing the financial leverage available under the credit facility. When additional capital is required, it is raised through subordinated debenture or unit issuances.

BANK CREDIT FACILITY

The Fund executed a credit facility on November 27, 2002 with a national association of a foreign bank. The amount of borrowings available under this facility is $50,000,000 (2004 – $35,000,000), subject to a defined borrowing base and a maximum financial leverage ratio of 3.75:1 (2004 – 3.50:1). The bank credit facility is the primary source of cash for funding growth in the finance receivable portfolio. As at December 31, 2005, a total of $39,059,586 (2004 – $27,661,324) was outstanding under the credit facility. The termination date of the credit facility is June 30, 2007 (2004 – August 31, 2006).

LONG TERM DEBT

As of December 31, 2005, the Fund had outstanding $500,000 (2004 – $3,925,000) of 14% (2004 – 16%) non-convertible subordinated debt. The subordinated debt is scheduled to mature on December 30, 2007. On April 8, 2005, the Fund redeemed $4,150,000 of 16% non-convertible subordinated debt using proceeds from the issuance of additional trust units.

UNITHOLDERS' EQUITY

The fund unit equity increased $6,718,936, or 141.3%, during fiscal 2005 from $4,755,586 at December 31, 2004 to $11,474,522 at December 31, 2005. The increase is due primarily to the issuance of additional trust units during the second quarter of 2005. On April 13, 2005, the Fund closed a private placement of units. The combined gross proceeds of the initial closing on April 8, 2005 and the second closing on April 13, 2005 were $7,168,660, consisting of a total issuance of 2,757,177 units of the Fund at $2.60 per unit. The net proceeds of $6,837,708 were used to repay subordinated indebtedness and borrowings under the bank credit facility.

Distributable Cash

for stated values, except per fund unit amounts)

	2005	2004
Net earnings	$ 4,489	$ 2,285
Adjustments:		
Change in allowance for credit losses	732	119
Other	(117)	—
Reserves	239	471
Share issue costs	(114)	(47)
	5,229	2,828
Amounts reinvested by the Fund	(661)	(1,702)
Distributable cash earned and distributable during the year	$ 4,568	$ 1,126
Cash distributions per fund unit	$ 0.249	$ 0.076
Unit distributions per fund unit	$ 0.036	$ 0.115
Total distributions per fund unit	$ 0.285	$ 0.191

Distributable cash is not a defined term under Canadian generally accepted accounting principles. The Fund will distribute all or virtually all of its distributable cash each year, net of any reserve deemed prudent by the Trustees of the Fund. Distributable cash is determined as net earnings reconciled to taxable income of the Fund and is further adjusted for amounts reinvested by the Fund. Any taxable income not distributed to the unitholders in the form of cash during the year is distributed in the form of additional trust units and/or cash at year end.

Selected Annual Information and Key Financial Ratios

($000s for stated values, except percentages and per fund unit amounts)	2005	2004	2003
Total revenue	$ 16,406	$ 10,734	$ 8,223
Net earnings	$ 4,489	$ 2,285	$ 910
Earnings per fund unit – basic and diluted	$ 0.25	$ 0.15	$ 0.06
Total assets	$ 56,639	$ 39,661	$ 25,864
Finance receivables	$ 61,134	$ 42,654	$ 28,183
Finance receivables – average	$ 51,894	$ 35,419	$ 27,528
Funds advanced on finance receivables	$ 39,533	$ 30,143	$ 16,536
Allowance for credit losses and dealer reserve	$ 5,080	$ 3,701	$ 2,830
Allowance as a percentage of finance receivables	8.3%	8.7%	10.0%
Total liabilities	$ 45,164	$ 34,905	$ 22,319
Total debt	$ 42,121	$ 29,650	$ 17,923
Bank credit facility	$ 39,060	$ 27,661	$ 17,396
Long term debt	$ 500	$ 3,925	$ 3,925
Unitholders' equity	$ 11,475	$ 4,756	$ 3,545
Unitholders' equity – average	$ 8,115	$ 4,150	$ 3,292
Total capitalization	$ 11,990	$ 8,774	$ 7,624
Fund units outstanding	18,579	15,404	14,318
Book value per fund unit	$ 0.65	$ 0.31	$ 0.23
Debt to equity ratio	3.51:1	3.38:1	2.35:1
Return on unitholders' equity	55.3%	55.1%	27.6%
Return on average finance receivables	8.6%	6.5%	3.3%
Average cost of borrowing	5.9%	6.6%	7.8%
Operating expense ratio	8.7%	9.1%	10.2%
Non-portfolio assets	1.0%	1.8%	2.0%
Cash distributions	$ 4,568	$ 1,126	$ 445
Cash distributions – cumulative	$ 6,258	$ 1,690	$ 564
Cash distributions per fund unit	$ 0.249	$ 0.076	$ 0.030

Summary of Quarterly Information (unaudited)

($000s for stated values, except percentages and per fund unit amounts)	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1
Total revenue	4,677	4,336	3,974	3,419	3,232	2,838	2,479	2,185
Net earnings	1,304	1,263	1,084	838	806	618	442	419
Earnings per fund unit – basic and diluted	0.07	0.07	0.06	0.05	0.05	0.04	0.03	0.03
Finance receivables	61,134	57,995	53,308	47,635	42,654	38,307	33,742	30,221
Funds advanced on finance receivables	9,365	10,237	10,573	9,358	8,556	8,379	7,378	5,831
Allowance and dealer reserve	5,080	4,271	4,210	3,778	3,701	3,468	3,149	2,905
Allowance as a % of finance receivables	8.3%	7.4%	7.9%	7.9%	8.7%	9.1%	9.3%	9.6%
Bank credit facility	39,060	37,182	33,420	30,897	27,661	24,104	21,002	18,362
Long term debt	500	—	—	4,150	3,925	3,925	3,925	3,925
Unitholders' equity	11,475	11,639	11,587	5,599	4,756	4,336	4,014	3,783
Fund units outstanding	18,579	18,361	18,361	15,429	15,404	14,621	14,621	14,468
Basic weighted average fund units	18,579	18,579	18,163	15,646	15,622	15,622	15,469	15,428
Book value per fund unit	0.62	0.63	0.64	0.36	0.30	0.28	0.26	0.25

Discussion of Fourth Quarter Results (unaudited)

THREE MONTHS ENDED DECEMBER 31

($000s for stated values, except per fund unit amounts)	2005	2004
Interest income	$ 4,014	$ 2,836
Administration fees	663	396
	4,677	3,232
Interest	649	511
Financing fees	21	6
Provision for credit losses	1,411	1,071
Amortization	18	22
General and administrative	1,274	816
	3,294	2,426
Net earnings	$ 1,304	$ 806
Net earnings per fund unit – basic and diluted	$ 0.07	$ 0.05

Revenues for the fourth quarter of 2005 were $4,678,279 compared to $3,232,021 for the same period in 2004, an increase of 44.7%. The higher revenues were directly attributable to the increase in the finance receivables of 43.3% during the comparative periods.

Expenses for the fourth quarter of 2005 were $3,373,676 compared to $2,426,217 for the same period in 2004, an increase of 39.1%. Overall, the expenses did not increase in tandem with the increase in revenue, mainly due to lower interest expenses as a result of raising additional fund unit equity during the second quarter of 2005.

Interest expense increased from $511,229 during the fourth quarter of 2004 to $650,508 during the same period in 2005, an increase of 27.2%. Financing fees of $20,530 for the quarter were similar to the $5,596 for the same period in 2004. Provision for credit losses increased from $1,070,605 for the fourth quarter of 2004 to $1,411,084 during the same period in 2005, an increase of 31.8%. Amortization of $17,646 for the quarter was similar to the $21,827 from the same period in 2004. General and administrative expenses were $1,273,908 compared to $816,960 for the same period in 2004, an increase of 55.9%.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is made with reference to the audited consolidated financial statements for the year ended December 31, 2005. A summary of the Fund's significant accounting policies are presented in Note 2 to these consolidated financial statements. Some of our accounting policies, as required by generally accepted accounting principles, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. The Fund believes the following are the most critical accounting estimates that affect its operating results and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

REVENUE RECOGNITION

Interest income is recorded on an accrual basis. Fees, net of applicable costs, charged to the customer and to the dealer are deferred and then the deferred fee components are recognized as revenue and expense on an effective yield basis over the expected life of the contracts originated. Charges related to the subsequent administration of the finance receivables are recognized upon collection of funds.

ALLOWANCE FOR CREDIT LOSSES

The management of the Fund establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The provision for credit losses is adjusted to the extent actual credit losses exceed, or are less than the Fund's total loss reserves. The Fund's finance receivable portfolio is composed of a large number of homogenous consumer loans, with relatively small balances, originated in the same industry, and as such, the evaluation of the allowance for credit losses is performed collectively for the group. The estimated allowance for credit loss requirements is determined by assessing the individual finance receivables in arrears, the perceived effect of current economic conditions or other circumstances on the remaining finance receivables, the historical industry ratios of write-offs, and the Fund's current write-off and recovery experience.

DEFERRED DEALER OBLIGATION

The Fund purchases certain finance receivables at a discount. The dealer has a vested interest in the performance of these finance receivables and can receive additional purchase consideration based on the collections from these finance receivables. The deferred dealer obligation represents the discount owed to the dealers, adjusted for estimated losses. The interest revenue is adjusted to the extent that the actual obligation exceeds or is less than this deferred dealer obligation. The amount of the deferred dealer obligation is based on future events and, as such, requires management to make judgments and estimates based on historical portfolio experience.

Accounting Policy Changes

On January 1, 2004, the Fund commenced deferring fees charged to the customer, in excess of the costs incurred, on the origination of finance receivables. The net fee is recorded to income on an effective yield basis. The revenues derived from this source during 2004 became material to the Fund's operations; accordingly, the Fund commenced applying its revenue recognition policy for this type of revenue on a prospective basis. The cumulative impact of the accounting policy for the year ended December 31, 2004 was a decrease in net earnings of $503,200 on the consolidated statement of earnings and equity and an increase in deferred administration fees of $503,200 on the consolidated balance sheet.

Related Party Transactions – Patica Securities Limited

The Fund has an agreement with Patica Securities Limited for services provided on an ongoing basis. Carfinco LP entered into a Consulting Services Agreement with Patica Securities Limited on October 1, 2003 and pursuant to this agreement Carfinco LP commenced incurring a fixed monthly fee of $13,375 and a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables. In management's opinion, the fee represents fair value for services provided. During fiscal 2005, payments of $270,334 (fiscal 2004 – $231,746) were made to Patica Securities Limited and at December 31, 2005, there was $24,126 (December 31, 2004 – $20,882) payable to Patica Securities Limited. Patica Securities Limited is controlled by individuals who are Trustees and/or unitholders of the Fund. The related party transactions occurred at the exchange amount, which is the consideration established and agreed to by the related parties.

Related Party Transactions – Debenture Holders

During the year, the Fund issued 16% debentures in the aggregate principal amount of $250,000 (2004 – $nil) to related parties. The Fund also had 16% debentures in the aggregate principal amount of $225,000 (2004 – $225,000) outstanding to related parties that were issued in previous years. All of the 16% debentures were redeemed by the Fund on April 8, 2005.

During the year, the Fund issued 14% debentures in the aggregate principal amount of $500,000 to related parties (2004 – $nil). All of the 14% debentures were outstanding as at December 31, 2005 (2004 – $nil).

Interest payments of $15,777 (2004 – $36,005) were paid in 2005 to debenture holders that are related parties.

These related parties were either trustees and/or officers of the Fund or family members of trustees and/or officers of the Fund. The related party transactions occurred at the exchange amount, which is the consideration established and agreed to by the related parties.

Contractual Obligations

The Fund is committed to a long term operating lease for building space. The minimum annual lease payments plus estimated operating costs required for the next four years are as follows: $180,450 for 2006, $182,329 for 2007, $182,329 for 2008 and $60,777 for 2009.

Risk Management

GENERAL

The operations of the Fund are affected by trends and factors that the Fund may not be able to control. These trends and factors may include changes in the vehicle financing market sector and the state of the domestic and global economy. It is not possible for management to accurately predict the impact of changes in the operating environment, nor to predict their effect on the Fund's financial condition and results of operations.

COMPETITIVE ENVIRONMENT

There can be no assurance that the Fund will be able to compete successfully against its current or future competitors, or that such competition will not have a material adverse effect on the financial condition and results of operations of the Fund. Overall, the market for the financial services offered by the Fund is highly competitive and many of the companies

operating in this sector have greater financial, technical and marketing resources than the Fund and generate greater revenues. Relatively low barriers to entry into our markets exist and the Fund expects to face additional competition over time from new entrants into its market sector.

RELIANCE ON KEY PERSONNEL

The Fund is dependent on the abilities, experience and efforts of its senior management and other key employees. If these individuals become unable or unwilling to continue their employment, there may be a material adverse effect on the Fund's financial condition, results of operations and business prospects.

LIQUIDITY RISK

As is customary in the Fund's industry, the credit facility and subordinated debt instruments must be renewed on a periodic basis. The Fund has been successful in renewing and expanding these facilities to date. If the Fund were unable to renew these facilities on acceptable terms, there could be a material adverse effect on the Fund's financial position, results of operations and liquidity.

CREDIT RISK

Credit risk management is the management of the credit risk associated with the total finance receivable portfolio. This is the risk of the loss of principal and/or interest from the failure of debtors, for any reason, to honour the financial or contractual obligations to the Fund. In the event of payment default, the collateral value of the financed vehicle may not cover the outstanding contract balance and costs of recovery.

The Fund originates transactions in a relatively high-risk segment of the consumer finance industry; therefore, write-offs are anticipated. The management of the Fund establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio.

The Fund reviews static pool origination, historical industry ratios of write-offs, current write-offs and recovery experience, estimates of the underlying collateral value, and economic conditions and trends to make the necessary judgments as to the appropriateness of the allowance for loan losses. Although the Fund uses many resources to assess the adequacy of loss reserves, there is no precise method for estimating the losses existing in the finance receivable portfolio.

INTEREST RATE RISK

The Fund's earnings are affected by changes in interest rates as a result of its dependence upon a credit facility, which bears interest at a floating rate. The receivable portfolio bears interest at a fixed rate; therefore, the Fund carries the risk of smaller interest rate spreads in the event market interest rates increase.

Disclosure Controls

Pursuant to Multilateral Instrument 52-109, "Certification of Disclosures in Issuers' Annual and Interim Filings," management has evaluated the effectiveness of the Fund's disclosure controls and procedures as at December 31, 2005 and found them to meet required standards.

Cautionary Statement

This annual report may contain certain forward-looking statements, including statements regarding the business and anticipated financial performance of Carfinco Income Fund. These statements are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. Carfinco Income Fund does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

Additional information relating to the Fund, including the Fund's Annual Information Form, is on SEDAR at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL REPORTING

The accompanying consolidated financial statements, the notes thereto and other financial information enclosed have been prepared by, and are the responsibility of, the management of Carfinco Income Fund.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments when appropriate. The Board of Trustees is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee, which is comprised of three non-management Trustees, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities, and to review the consolidated financial statements and the report of the auditors. The auditors have full and unrestricted access to the Audit Committee. The financial statements have been audited by Grant Thornton LLP, the independent auditors, in accordance with Canadian generally accepted auditing standards.

Tracy Graf

TRACY A. GRAF

TROY F. GRAF
Vice President and CF

AUDITORS' REPORT

TO THE UNITHOLDERS OF CARFINCO INCOME FUND

We have audited the consolidated balance sheets of Carfinco Income Fund as at December 31, 2005 and 2004 and the consolidated statements of earnings and equity and consolidated statements of cash flows for each of the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and cash flows for each of the years ended December 31, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

CHARTERED ACCOUNTANTS
Edmonton, Canada
March 10, 2006

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31	2005	2004
ASSETS		
Finance receivables (Note 4)	$ 61,134,129	$ 42,654,232
Allowance for credit losses (Note 5)	(3,460,450)	(2,729,000)
Dealer reserve (Note 6)	(1,619,245)	(971,832)
Finance receivables – net	56,054,434	38,953,400
Cash and cash equivalents	251,621	453,679
Other assets	43,210	52,692
Capital assets (Note 7)	227,269	163,896
Deferred costs	62,111	37,304
	584,211	707,571
	$ 56,638,645	$ 39,660,971
LIABILITIES		
Bank credit facility (Note 8)	$ 39,059,586	$ 27,661,324
Accounts payable and accrued liabilities	737,098	511,260
Deferred administration fees	2,466,460	1,199,504
Deferred dealer obligation (Note 9)	2,324,400	1,477,985
Deferred gain	76,579	130,312
Long term debt (Note 10)	500,000	3,925,000
	45,164,123	34,905,385
UNITHOLDERS' EQUITY		
Fund unit equity (Note 11)	11,474,522	4,755,586
	$ 56,638,645	$ 39,660,971

Commitments (Note 14)

See accompanying notes to the Consolidated Financial Statements.

ON BEHALF OF THE BOARD OF TRUSTEES

Tracy Graf

TRACY A. GRAF
Trustee

DAVID PRUSSKY
Trustee

CONSOLIDATED STATEMENTS OF EARNINGS AND EQUITY

DECEMBER 31	2005	2004
REVENUES		
Interest income	$ 14,287,438	$ 9,578,897
Administration fees	2,118,944	1,154,743
	16,406,382	10,733,640
EXPENSES		
Interest	2,110,581	1,750,964
Financing fees	50,878	37,595
Provision for credit losses	5,259,105	3,437,482
Amortization	79,763	79,136
General and administrative	4,417,242	3,143,105
	11,917,569	8,448,282
NET EARNINGS	$ 4,488,813	$ 2,285,358
FUND UNIT EQUITY, BEGINNING OF YEAR	$ 4,755,586	$ 3,545,059
Net earnings	4,488,813	2,285,358
Change in fund units in year (Note 11)	2,230,123	(1,074,831)
FUND UNIT EQUITY, END OF YEAR	$ 11,474,522	$ 4,755,586
EARNINGS PER FUND UNIT		
Basic (Note 15)	$ 0.25	$ 0.15
Diluted (Note 15)	$ 0.25	$ 0.15

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DECEMBER 31	2005	2004
Increase (decrease) in cash and cash equivalents		
OPERATING		
Net earnings	$ 4,488,813	$ 2,285,358
Adjustments to reconcile net earnings to net cash from operations:		
Provision for credit losses	5,259,105	3,437,482
Amortization	79,763	79,136
Accrued interest	(232,629)	(196,118)
Administration fees receivable	(2,352,932)	(1,136,454)
Deferred administration fees	1,266,956	913,345
Deferred costs	(24,807)	(7,170)
Deferred gain	(53,733)	(53,733)
Accounts payable and accrued liabilities	225,838	217,021
Other assets	9,482	(21,166)
	8,665,856	5,517,701
INVESTING		
Funds advanced on finance receivables	(39,533,058)	(30,143,377)
Principal collections on finance receivables	20,604,895	15,683,292
Purchase of capital assets	(143,136)	(97,056)
	(19,071,299)	(14,557,141)
FINANCING		
Advances on bank credit facility	12,998,262	10,465,098
Repayments on bank credit facility	(1,600,000)	(200,000)
Issuance of long term debt	750,000	—
Repayment of long term debt	(4,175,000)	—
Repayment of share purchase financing	36,282	51,027
Fund units issued on private placement	7,168,660	—
Fund unit issue costs	(406,247)	—
Fund unit cash distribution	(4,568,572)	(1,125,858)
	10,203,385	9,190,267
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(202,058)	150,827
CASH AND CASH EQUIVALENTS		
Beginning of year	453,679	302,852
End of year	$ 251,621	$ 453,679
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 2,042,623	$ 1,751,007

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

1

Organization of the Fund and Description of the Business

Carfinco Income Fund (the "Fund") is an unincorporated open-end mutual fund trust established under the laws of the Province of Ontario by a Deed of Trust made as of August 26, 2002, as amended and restated on April 23, 2004. The Fund owns 100% of Carfinco Holdings Trust ("CHT"), a wholly owned unincorporated trust, established under the laws of Ontario and 100% of Carfinco Inc. ("CAR"), a wholly owned subsidiary, established under the laws of Ontario. CHT holds 86.04% and is the limited partner of Carfinco Limited Partnership ("Carfinco LP") and CAR holds the remaining 13.96%, and is the general partner of Carfinco LP. Carfinco LP is a continuation of the business formerly conducted by Carfinco Inc. ("Carfinco"), and its wholly owned subsidiary Canadian Automotive Finance Corporation. Carfinco LP is in the business of providing consumer financing for vehicle purchases.

The units of the Fund are publicly traded on the Toronto Stock Exchange, under the symbol "CFN.UN."

2

Summary of Significant Accounting Policies

The consolidated financial statements of the Fund have been prepared by management in accordance with Canadian generally accepted accounting principles and are as follows:

BASIS OF CONSOLIDATION

These financial statements include the accounts of the Fund, CHT, CAR and Carfinco LP. All inter-company accounts and transactions have been eliminated on consolidation. Any subsequent reference to the Fund within the Notes to the Consolidated Financial Statements refers to the consolidated Fund.

USE OF ESTIMATES

In preparing financial statements in conformity with Canadian generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant of these estimates relates to the determination of the allowance for credit losses and related reserves. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and highly liquid temporary money market instruments with original maturities of three months or less. The bank credit facility, debentures, and other long term borrowings are considered to be financing activities.

FINANCE RECEIVABLES

Finance receivables are recorded at their principal amounts, including accrued interest, less allowance for credit losses and dealer reserves.

REVENUE RECOGNITION

Interest income is recorded on an accrual basis. Accrual of interest income is suspended on finance receivables classified as non-performing. A finance receivable is classified as non-performing if it is 90 or more days contractually delinquent or otherwise identified by management.

Fee income charged to the customer, in excess of the costs incurred, on the origination of finance receivables is deferred. Fee income charged to the dealer on the origination of finance receivables is deferred. These deferred fee components are recognized as Administration Fees revenue and General and Administrative expense on an effective yield basis over the expected life of the contracts originated. Charges related to the subsequent administration of the finance receivables are recognized upon collection of funds.

ALLOWANCE FOR CREDIT LOSSES

The management of the Fund establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The allowance for credit losses consists of accumulated specific and general components, which are deducted from the finance receivable portfolio. In addition to the allowance for credit losses, a dealer reserve has been established using dealer discounts to absorb potential credit losses. The provision for credit losses is adjusted to the extent actual credit losses exceed, or are less than the Fund's total loss reserves.

The Fund's finance receivable portfolio is comprised of a large number of homogenous consumer loans, with relatively small balances, originated in the same industry, and as such, the evaluation of the allowance for credit losses is performed collectively for the group. The estimated allowance for credit loss requirements are determined by assessing the individual finance receivables in arrears, the perceived effect of current economic conditions or other circumstances on the remaining finance receivables, the historical industry ratios of write-offs, and the Fund's current write-off and recovery experience.

2 Summary of Significant Accounting Policies (CONTINUED)

CAPITAL ASSETS

Capital assets are recorded at cost. Capital assets are amortized over their estimated useful lives, using the following rates and methods:

- Computer and office equipment/30%, declining balance
- Computer software/Straight-line over a five-year period
- Furniture and fixtures/20%, declining balance
- Leasehold improvements/Straight-line over the term of the related lease

Amortization is recorded at one-half of the above rates in the year of acquisition on all capital assets, except computer software and leasehold improvements.

INCOME TAXES

The Fund is a "unit trust" for income tax purposes. As such, the Fund is taxed on any taxable income not allocated to unitholders. Under the terms of the Deed of Trust, all or virtually all of the taxable income will be allocated to unitholders resulting in no income tax expense for the Fund.

The Fund follows the liability method of accounting for income taxes for its incorporated subsidiary. Under this method, the Fund recognizes both the current and future income tax consequences of all transactions that have been recognized in the financial statements. Future income tax assets and liabilities are determined based on the tax rates that are expected to apply when the assets or liabilities are reported for tax purposes.

DEFERRED COSTS

The costs of obtaining debt financing are deferred and amortized to financing fees on a straight-line basis over the terms of the debt. During fiscal 2005, there were additions to deferred costs of $75,685 (fiscal 2004 — $44,765) and amortization to financing fees of $50,878 (fiscal 2004 — $37,595).

DEFERRED DEALER OBLIGATION

The Fund purchases certain finance receivables at a discount. The dealer has a vested interest in the performance of these finance receivables and can receive additional purchase consideration based on the collections from these finance receivables. The deferred dealer obligation represents the discount owed to the dealers, adjusted for estimated losses. The interest revenue is adjusted to the extent that the actual obligation exceeds or is less than this deferred dealer obligation.

EARNINGS PER FUND UNIT

Basic earnings per fund unit are computed by dividing net earnings by the weighted average number of fund units outstanding during the reporting period. Diluted earnings per fund unit are computed similar to basic earnings per fund unit, except that the weighted average fund units outstanding are adjusted for the impact of all potential dilutive units outstanding during the reporting period.

DERIVATIVE FINANCIAL INSTRUMENTS

The Fund utilizes interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its bank credit facility. These swap agreements require the monthly exchange of payments without the exchange of the notional principal amount on which the payments are based. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

A gain or loss on termination of an interest rate swap agreement is deferred on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreements. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of earnings at the time of extinguishment.

3

New Accounting Policy

On January 1, 2004, the Fund commenced the deferral of fees charged to the customer, in excess of the costs incurred, on the origination of finance receivables. The net fee is recorded to income on an effective yield basis. The revenues derived from this source during 2004 became material to the Fund's operations. Accordingly, the Fund commenced the application of its revenue recognition policy for this type of revenue on a prospective basis. The cumulative impact of the accounting policy for the year ended December 31, 2004 was a decrease in net earnings of $503,200 on the consolidated statement of earnings and equity and an increase in deferred administration fees of $503,200 on the consolidated balance sheet.

4

Finance Receivables

Finance receivables consist of conditional sales contracts, which have terms of 12 to 60 months with fixed rates of interest. Each individual finance receivable is collateralized by a vehicle.

The contractual payments, including principal and interest, and the average stated interest rates, are due in the years as follows:

AS AT DECEMBER 31	2005	AVERAGE STATED INTEREST RATE	2004	AVERAGE STATED INTEREST RATE
2005			$ 20,293,373	28.8%
2006	$ 28,495,469	28.3%	18,077,513	28.9%
2007	26,736,255	28.4%	15,350,161	29.0%
2008	23,175,189	28.5%	10,842,672	29.1%
2009	14,318,962	28.8%	3,555,997	29.5%
2010	3,644,341	29.4%	—	
Gross finance receivables	96,370,216		68,119,716	
Unearned interest income	(36,082,063)		(26,079,831)	
Principal of finance receivables	60,288,153		42,039,885	
Accrued interest	845,976		614,347	
Finance receivables	$ 61,134,129		$ 42,654,232	

The Fund's experience has shown that the actual contractual payment stream will vary depending on a number of variables. These variables include prepayment rates, charge-offs and deferments. Accordingly, the maturities of finance receivables shown in the table above are not to be regarded as a forecast of future cash collections.

As of December 31, 2005 and December 31, 2004, the amount of principal of finance receivables classified as non-performing amounted to $268,760 and $127,850, respectively. These finance receivables have been fully provided for in the allowance for credit losses.

5

Allowance for Credit Losses

DECEMBER 31

	2005	2004
Allowance, beginning of year	$ 2,729,000	$ 2,610,000
Provision for credit losses	5,259,105	3,437,482
Write-offs	(5,948,039)	(4,161,112)
Recoveries	1,420,384	842,630
Allowance, end of year	$ 3,460,450	$ 2,729,000

6

Dealer Reserve

DECEMBER 31

	2005	2004
Reserve, beginning of year	$ 971,832	$ 220,000
Reserve on new volume	2,838,934	1,157,615
Write-offs	(2,442,821)	(433,940)
Recoveries	251,300	28,157
Reserve, end of year	$ 1,619,245	$ 971,832

7

Capital Assets

2005

	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer and office equipment	$ 298,969	$ 172,622	$ 126,347
Computer software	152,611	152,611	—
Furniture and fixtures	127,779	59,742	68,037
Leasehold improvements	53,901	21,016	32,885
	$ 633,260	$ 405,991	$ 227,269

7 Capital Assets (CONTINUED)

2004

	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Computer and office equipment	$ 225,797	$ 119,996	$ 105,801
Computer software	152,611	146,674	5,937
Furniture and fixtures	85,981	43,013	42,968
Leasehold improvements	25,736	16,546	9,190
	$ 490,125	$ 326,229	$ 163,896

8

Bank Credit Facility

AS AT DECEMBER 31

	2005	2004
Bank credit facility	$ 39,059,586	$ 27,661,324

The bank credit facility is a demand loan, which is the lesser at any time of: a) $50,000,000 (2004 – $35,000,000), and b) the total of an advance rate applied to the value of acceptable outstanding finance receivables. The credit facility bears interest at prime plus 1.0% (2004 – 1.5%). The stated termination date of the credit facility is June 30, 2007 (2004 – August 31, 2006).

As at December 31, 2005, the Fund had four bankers acceptance equivalent loans with a combined notional amount of $37,000,000. Of this amount, $17,000,000 carried an interest rate of 5.68% with a maturity date of January 16, 2006, and $20,000,000 carried an interest rate of 5.75% with a maturity date of January 30, 2006. The remaining prime rate based credit facility of $2,059,856 (2004 – $3,161,324) carried an interest rate of 6.00% (2004 – 5.74%), as at December 31, 2005.

As at December 31, 2004, the Fund had two bankers acceptance equivalent loans with a combined notional amount of $24,500,000. Of this amount, $4,500,000 carried an interest rate of 5.68% and matured on January 20, 2005, and $20,000,000 carried an interest rate of 5.75% and matured on February 2, 2005.

The collateral security lodged by the Fund to support the credit facility is a general security agreement covering all property held by the Fund.

The terms of the credit facility provide for certain covenants, all of which the Fund was in compliance with at December 31, 2005.

9

Deferred Dealer Obligation

DECEMBER 31

	2005	2004
Deferred dealer obligation, beginning of year	$ 1,477,985	$ 233,025
Deferred dealer obligation on new volume	936,682	1,244,960
Advances	(90,267)	—
Deferred dealer obligation, end of year	$ 2,324,400	$ 1,477,985

10

Long Term Debt

AS AT DECEMBER 31

	2005	2004
14% debentures, maturing on December 30, 2007	$ 500,000	$ —
16% debentures, maturing on February 18, 2006	—	2,475,000
16% debentures, maturing on December 27, 2007	—	1,450,000
	$ 500,000	$ 3,925,000

Principal repayments in each of the next two years are due as follows:

2006	$ —
2007	500,000
	$ 500,000

During the first quarter of 2005, the Fund issued additional non-convertible debentures for proceeds of $250,000. On March 18, 2005, the Fund redeemed debentures in the amount of $25,000. On April 8, 2005, the Fund redeemed all of the outstanding debentures, in the aggregate amount of $4,150,000. These debentures were unsecured, bore interest at 16% per annum and the interest payments were payable monthly in arrears. The debentures were redeemable, in whole or part, by the Fund during the term of the debentures, at the option of the Fund.

10 Long Term Debt (CONTINUED)

On December 12, 2005, the Fund issued non-convertible debentures for proceeds of $500,000. These debentures are unsecured, bear interest at 14% per annum and the interest payments are payable monthly in arrears. The debentures may be redeemed in whole or part, by the Fund during the term of the debentures, at the option of the Fund.

11

Fund Unit Equity

AUTHORIZED

The Fund's Deed of Trust provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distribution from the Fund and in the net assets of the Fund in the event of termination or winding-up of the Fund. All trust units are of the same class with equal rights and privileges.

DECEMBER 31	NUMBER	2005	NUMBER	2004
Fund unit equity, beginning of year	15,403,601	$ 4,755,586	14,318,250	$ 3,545,059
Share purchase repayment (financing)	200,000	36,282	302,500	51,027
Fund units issued on private placement	2,757,177	7,168,660	—	—
Fund unit issue costs	—	(406,247)	—	—
Fund unit distribution (unit issuance)	218,324	—	782,851	—
Fund unit distribution (cash distribution)	—	(4,568,572)	—	(1,125,858)
Change in units in the year	3,175,501	2,230,123	1,085,351	(1,074,831)
Net earnings for the year	—	4,488,813	—	2,285,358
Fund unit equity	18,579,102	$ 11,474,522	15,403,601	$ 4,755,586

DISTRIBUTION OF INCOME TO UNITHOLDERS

Pursuant to the Deed of Trust of the Fund, the Trustees must distribute all or virtually all of the income of the Fund for the fiscal year, determined in accordance with the *Income Tax Act (Canada)*, to the unitholders of the Fund. If the Fund does not pay cash distributions for the total distributable amount of income, the remaining income of the Fund is distributed through additional Trust Units having a value equal to the cash shortfall.

As at December 31, 2005, the Fund had $5,230,531 in taxable income, of which $4,568,572 was distributed in cash, and the remaining $661,959 was distributed through the issuance of additional Trust Units to the unitholders. The distribution was based on the weighted average closing trading price of the Trust Units during the ten business days immediately preceding the record date of December 20, 2005, which was $3.032, and a distribution value of $0.036 per unit.

As at December 31, 2004, the Fund had $2,828,354 in taxable income, of which $1,125,858 was distributed in cash, and the remaining $1,702,496 was distributed through the issuance of additional Trust Units to the unitholders. The distribution was based on the weighted average closing trading price of the Trust Units during the ten business days immediately preceding the record date of December 15, 2004, which was $2.175, and a distribution value of $0.115 per unit.

SHARE PURCHASE FINANCING

The Fund entered into share loan agreements on August 20, 2002 with two individuals who are employees and/or Trustees of the Fund. The loans have an aggregate principal amount of $nil (December 31, 2004 – $36,282), bear interest at the prescribed interest rate, as set by the Canada Revenue Agency and are repayable in full on August 20, 2007. The loans are secured by nil (December 31, 2004 – 200,000) trust units, acquired pursuant to the exercise of options, and warrants related to the financing. As at December 31, 2005, the market value of the security was $nil (December 31, 2004 – $440,000).

12

Related Party Transactions

The Fund has an agreement with Patica Securities Limited for services provided on an on-going basis. Carfinco LP entered into a Consulting Services Agreement with Patica Securities Limited on October 1, 2003, and pursuant to this agreement, Carfinco LP commenced incurring a fixed monthly fee of $13,375 and a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables. In management's opinion, the fee represents fair value for services provided.

During fiscal 2005, payments of $270,334 (fiscal 2004 – $231,746) were made to Patica Securities Limited, and at December 31, 2005, there was $24,126 (December 31, 2004 – $20,882) payable to Patica Securities Limited. Patica Securities Limited is controlled by individuals who are Trustees and/or unitholders of the Fund.

On February 18, 2005, the Fund issued debentures in the aggregate principal amount of $225,000. The Fund issued a debenture in the principal amount of $100,000 to David Rosenkrantz, a Trustee of the Fund, and during fiscal 2005, interest payments of $2,148 were made to this debenture holder. The Fund issued a debenture in the principal amount of

12 Related Party Transactions (CONTINUED)

$100,000 to David Prussky, a Trustee of the Fund, and during fiscal 2005, interest payments of $2,148 were made to this debenture holder. The Fund issued a debenture in the principal amount of $25,000 to a family member of Tracy Graf, a Trustee and Officer of the Fund, and during fiscal 2005, interest payments of $537 were made to this debenture holder. On April 8, 2005, these debentures were redeemed by the Fund.

On March 18, 2005, the Fund issued a debenture in the principal amount of $25,000 to a family member of Tracy Graf, a Trustee and Officer of the Fund, and during fiscal 2005, interest payments of $230 were made to this debenture holder. On April 8, 2005, this debenture was redeemed by the Fund.

The Fund issued debentures in the aggregate principal amount of $200,000 to family members of David Rosenkrantz, a Trustee of the Fund. During fiscal 2005, interest payments of $9,728 (fiscal 2004 – $32,005) were made to these debenture holders. On April 8, 2005, these debentures were redeemed by the Fund.

The Fund issued a debenture in the aggregate principal amount of $25,000 to Tracy Graf, a Trustee and Officer of the Fund. During fiscal 2005, interest payments of $986 (fiscal 2004 – $4,000) were made to this debenture holder. On March 18, 2005, this debenture was redeemed by the Fund.

On December 12, 2005, the Fund issued debentures in the aggregate principal amount of $500,000. The Fund issued a debenture in the principal amount of $100,000 to a family member of Tracy Graf, a Trustee and Officer of the Fund, and during fiscal 2005, interest payments of $nil were made to this debenture holder. The Fund issued a debenture in the principal amount of $100,000 to Brent Channell, a Trustee of the Fund, and during fiscal 2005, interest payments of $nil were made to this debenture holder. The Fund issued a debenture in the principal amount of $100,000 to a family member of David Prussky, a Trustee of the Fund, and during fiscal 2005, interest payments of $nil were made to this debenture holder. The Fund issued a debenture in the principal amount of $100,000 to a family member of Maurice Kagan, a Trustee of the Fund, and during fiscal 2005 interest payments of $nil were made to this debenture holder. The Fund issued debentures in the aggregate principal amount of $100,000 to family members of David Rosenkrantz, a Trustee of the Fund, and during fiscal 2005 interest payments of $nil were made to this debenture holder.

During the year, the Fund made interest payments of $15,777 (2004 – $36,005) related to debentures with related parties.

The related party transactions occurred at the exchange amount, which is the consideration established and agreed to by the related parties.

13

Income Taxes

Under the terms of the Deed of Trust, all or virtually all of the taxable income will be allocated to unitholders. No future taxes were recorded by the Fund in 2005, as there is no Canadian tax obligation.

The Fund and the underlying partnership, Carfinco LP, have tax pools that impact the allocation of taxable income and that exceed the carrying value of assets and liabilities. The tax pools are composed of the following:

AS AT DECEMBER 31	2005	2004
Allowance for credit losses	$ 1,573,426	$ 993,400
Capital assets	7,261	8,908
Unit issue costs	355,506	138,089
Tax loss carry forwards	10,274	31,853
Termination of interest rate swap agreeements	76,580	130,312
Unearned administration fees	—	(329,000)
Total tax values in excess of carrying values	$ 2,023,047	$ 973,562

Included in the tax pools above is $237,255 (2004 – $133,776) related to the Fund's incorporated subsidiary, Carfinco Inc. These pools translate into a future tax asset balance of $79,765 (2004 – $44,976). The Company has provided for a valuation allowance of $79,765 (2004 – $44,976) against this balance, and therefore, no future tax asset has been recognized in the consolidated financial statements.

14

Commitments

The Fund is committed to a long term operating lease for building space. The minimum annual lease payments required are as follows:

2006	$ 180,450
2007	182,329
2008	182,329
2009	60,777

15

Earnings Per Fund Unit

The computation of basic earnings per fund unit has been calculated using the weighted average number of trust units outstanding during the year. The unit issuance of 218,324 units on December 31, 2005 has been treated as a unit dividend on trust units. The computation of basic weighted average fund units for both 2005 and 2004 has been adjusted to reflect the balance as if the units were outstanding for the period. Earnings per fund unit on a diluted basis has been calculated using the treasury method.

The following table describes the computation of basic and diluted earnings per fund unit:

AS AT DECEMBER 31	2005	2004
Numerator:		
Net earnings	$ 4,488,813	$ 2,285,358
Denominator:		
Basic weighted average fund units	17,752,135	15,535,846
Effect of dilutive share purchase financing	—	186,045
Dilutive weighted average fund units	17,752,135	15,721,891
Earnings per fund unit – basic	$ 0.25	$ 0.15
Earnings per fund unit – diluted	$ 0.25	$ 0.15

16

Fair Value of Financial Instruments

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act, and is best evidenced by a quoted market price, if one exists. Quoted market prices are not available for a significant portion of the Fund's financial instruments. Consequently, the fair values presented are estimates derived using present value or other valuation techniques, and may not be indicative of the ultimate net realizable value.

16 Fair Value of Financial Instruments (CONTINUED)

The following table presents the estimated fair values of the Fund's financial assets and financial liabilities:

AS AT DECEMBER 31	2005 BOOK VALUE	2005 FAIR VALUE	2004 BOOK VALUE	2004 FAIR VALUE
FINANCIAL ASSETS				
Finance receivables – net	$ 56,054,434	$ (a)	$ 38,953,400	$ (b)
Cash and cash equivalents	251,621	251,621	453,679	453,679
Interest rate swap agreement	—	393,019	—	—
FINANCIAL LIABILITIES				
Bank credit facility	$ 39,059,586	$ 39,059,586	$ 27,661,324	$ 27,661,324
Accounts payable and accrued liabilites	737,098	737,098	511,260	511,260
Deferred dealer obligation	2,324,400	1,744,500	1,477,985	1,109,700
Long term debt	500,000	500,000	3,925,000	3,925,000

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- The fair value of finance receivables – net is calculated by discounting the estimated future cash flows of the portfolio at rates commensurate with the underlying assets. The fair value is net of allowance for credit losses and dealer reserve at the balance sheet date. Management's estimate of fair value is presented as a range of the values as, currently, there is no organized market for valuing the finance receivable portfolio.

AS AT DECEMBER 31	2005 (a) DISCOUNT RATE	2005 FAIR VALUE	2004 (b) DISCOUNT RATE	2004 FAIR VALUE
Upper value	12.5%	$ 62,595,600	12.5%	$ 45,540,100
Lower value	17.5%	$ 59,000,300	17.5%	$ 42,834,400

16 Fair Value of Financial Instruments (CONTINUED)

- Bank credit facility and accounts payable and accrued liabilities are assumed to approximate their carrying values, due to their short-term nature.
- Fair value of the deferred dealer obligation is determined by discounting the estimated future cash flows.
- Book value of the long term debt approximates its fair value, as the rates approximate current rates on similar investments with similar terms and conditions.

The nature of these instruments and the Fund's operations expose the Fund to interest rate risk and industry credit risk. The Fund manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

INTEREST RATE RISK

Finance receivables bear interest at a fixed rate. The fixed rate finance receivable is subject to interest rate price risk, as the value will fluctuate, as a result of changes in market rates.

Bank credit facility bears interest at a floating rate. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

Long term debt bears interest at a fixed rate. The fixed rate long term debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates.

On September 1, 2005, the Fund entered into an interest rate swap agreement with a notional amount of $20,000,000, a fixed bankers acceptance rate of 3.32% and a three-year term.

On June 10, 2003, the Fund entered into two interest rate swap agreements with a combined notional amount of $15,000,000. On November 12, 2003, these agreements were terminated and a gain of $116,000 was realized on a five-year agreement with a notional amount of $5,000,000, and a gain of $77,000 was realized on a three-year agreement with a notional amount of $10,000,000. Upon termination, the five-year agreement had 56 months remaining on the term of the original contract life, and the three-year agreement had 32 months remaining on the term of the original contract life.

CREDIT RISK

The Fund's finance receivables are a result of transactions within the consumer finance industry and, as such, contain an element of credit risk in the event that the counter parties are unable to meet the terms of the agreements. The Fund secures individual finance receivables by registering a security interest/lien against tangible assets. The Fund performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. The Fund maintains an allowance for credit losses, and any such losses to date have been within management's expectations.

17

Subsequent Events

On January 1, 2006, the Fund reorganized debt owed by Carfinco LP to the Fund. The debt owed by Carfinco LP to the Fund was assigned to CHT by the Fund. CHT in turn issued a note to the Fund for the full value of the debt. The resulting debt between Carfinco LP and CHT was settled by Carfinco LP through the issuance of additional units in Carfinco LP to CHT. As a result of the issuance of additional partnership units, CHT's holdings in Carfinco LP increased from 86.03% to 89.73% and CAR's holdings of Carfinco LP decreased from 13.97% to 10.64%.

UNITHOLDER INFORMATION

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ANNUAL MEETING
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